

**CITY OF TUCSON EMPLOYEES VOLUNTARY DEFERRED COMPENSATION
MANAGEMENT BOARD – Meeting minutes from September 10, 2009**

Members Present: Joe Barkenbush, Chair
Curry Hale, Designee for Human Resources Director
Joel Peterson, Designee for Interim Finance Director
Dennis Woodrich, Member
Steven Postil, Member

Staff Present: David Deibel, Board Counsel
Allan Bentkowski, Investment Manager
John Behrens, Finance Analyst
Michael Hermanson, Retirement Manager
Doris Rentschler, Finance Analyst
Michael Jesse, Management Analyst
Claire Beaubien, Retirement Administrative Assistant

Guests Present: Ken Wedemeyer, ICMA-RC
Mary Inorio, ICMA-RC

A) Call to Order

After ascertaining that all members (or their designees) were present, Chairman Joe Barkenbush called the meeting to order at 10:00 a.m.

B) Consent Agenda - approval of minutes for June 11, 2009

Steve Postil **motioned, seconded** by Joel Peterson, to approve the Consent Agenda as presented. **Motion passed unanimously.**

C) ICMA-RC Plan Review Discussions

1. June 30, 2009 Quarterly Plan Review

Ken Wedemeyer reported that the plan's 2nd quarter fund performance was opposite of what occurred during the 4th quarter of 2008 and the 1st quarter of 2009. Returns in the 2nd quarter were positive, following some back to back negative quarters and erasing year to date losses. Ken reminded the Board that during those prior quarters, there was considerable market activity and positive returns found in the long-term commercial and government bond sectors. The 2nd quarter of 2009 showed performance falling in those sectors, and equities were the place to be. Diversified emerging markets were down in the 1st quarter almost 50% but at the end of the 2nd quarter, showing a positive 35% return, but still down 31% for the year. Mike Hermanson noted that more recent performance information for the various funds was available thru August 31, 2009 and distributed that information to the Board members.

Ken also reported that the 1, 3 and 5 year CD investment options were back in the plan with Bank of America, effective August, 2009. The returns on CD's are dismal, reflecting the prevailing market rates. Ken reported that the Milestone Funds are performing well against their peers, probably due to their conservative management. In down markets, these funds compared favorably against peers.

Ken expressed some concerns on the plan participant statistics: a large amount of participants have either reduced or stopped their contributions at higher or larger rates than he has seen in other plans. He said that it is disconcerting and it is something they will try to be sensitive to during the planning for education with Tom and Mary. This is especially true during National Save For Retirement Week. He suggested that it is important that they continue to let participants know how important it is to save for retirement. Mike commented that perhaps the falling average and total savings amount are related to the number of retirements occurring in the recent year, especially where many of those leaving were among the highest savers, and had their contributions and termination payments end with their retirement.

2. Fund watch discussion

Ken reviewed the funds in the portfolio that were the worst performers:

- a) RiverSource's five year performance was in the 12th percentile, but the 1 and 3 year had been negatively affected by current market conditions falling to 84th and 56th during those periods. RiverSource was not as heavily weighted in financials as their peers, which hurt them in the first quarter and helped them in the second quarter.
- b) Ranier Small/Mid Cap Equity. This fund is on ICMA's watchlist and they are monitoring this fund closely, having had two visits with them recently. The overweight energy position in the 4th quarter of 2008 and their high quality focus in the second quarter hurt performance against the benchmarks during those quarters. Ken recommended the Board consider alternative funds to replace Ranier at the next meeting.
- c) Third Avenue Value was originally considered a domestic fund. However, their investment guidelines allowed them to shift into the international market, and they did. This move was successful, since their one year returns were at the 15th percentile of their peers. Ken remarked that this fund has enough leeway that they could shift back into the domestic style box in the next few quarters and they may do that.
- d) The poor performance of Legg Mason Emerging Markets, due to their exposure to emerging markets in South Korea did not perform as well as others. This is another fund that Ken recommended to the Board to consider alternatives at the next meeting.
- e) Fidelity Diversified was another fund that underperformed its peers. Ken commented that this fund falls off the investment policy but has shown improvement in the 2nd quarter. ICMA is comfortable with this fund and doesn't recommend replacing this fund.

Chairman Barkenbush asked the Board if they are interested in looking at alternatives for the underperforming funds. Steve Postil asked if there were more updated numbers. Mike reported that as of 8/31/09, RiverSource had a year-to-date return of 15.94%, Ranier Small/Mid Cap had a year-to-date return of 14.74%, Fidelity Diversified International had a year-to-date return of 21.80% and Legg Mason had a year-to-date return of 46.03%. Mike commented that he thought it would be good to have alternatives run for all four of the underperforming funds for the next meeting in December. The Board concurred.

D) Educational Program summary

1. Summary of 2009 year to date plan year activity

Mary Inorio reported that she has been holding Open Office Hours events every week and reviewed the schedule for meetings completed, and what she had scheduled for the rest of the year. For the 3rd and 4th quarters, she changed some of the venues for variety: the IT location was replaced with a conference room in City Hall and she added East City Hall in July to replace meetings at the Hardesty Center. The best attendance has been at Budget & Auditing and Environmental Services with 14 attendees at each seminar. She said that reserving conference rooms has been challenging. She prefers the police departments but they are difficult to reserve because she must reserve conference rooms outside of the secure area. Joel Peterson inquired how many attendees she typically has at each meeting. Mary replied that there are 3 and 4 people at each location. Joel replied that there are meeting rooms all along the street that the Hardesty Center is on that Parks & Rec could provide. Doris Rentschler suggested the Miller Library was near the Eastside Police Station and perhaps a room could be secured there. Mary replied that she tried reserving a room at the Library but it was reserved for Storytime. Mary reported that Tom Price and Development Services were not on the rotation list this quarter but will be back in rotation next year since the schedule is through December, 2009.

All together, Mary held 186 individual participant consultations and account reviews. She reports 108 new enrollments year-to-date and 24 new Roth IRA enrollments year-to-date. Through the end of August, Mary has conducted 147 onsite service days. She has conducted 21 group meetings with 106 attendees through the end of August.

Mary reported that Tom Axline had 4 onsite service days conducting seminars and individual consultations. Tom held 1 group seminar and participated at the June 11th Retirement DROP seminar in conjunction with an Income Distribution Workshop. Tom delivered 8 comprehensive financial plans year-to-date. Tom and Mary will be participating in the National Save for Retirement Week events with the City of Tucson.

2. Review of contract commitment

Included in the Board packet was an outline of the service commitments/guarantees from the contract with ICMA that were offered when the contract was awarded in September 2006. ICMA pledged to provide 150 days of one-on-one meetings, 120 educational seminars presented by the local representative, and 12 planning seminars presented by a certified financial planner. Gary Helm, who wasn't able to attend the meeting, provided a letter requesting an adjustment to these commitments as follows:

1. Amend the number of one-on-one meeting days from 150 to 170
2. Amend the number of Educational Seminars conducted by Retirement Plan Specialist from 120 to 70 annually
3. Amend the number of Financial Planning Seminars conducted by the Financial Planning Manager from 12 to 16 annually.

These amendments would become effective for the current plan year ending September 30th, 2009.

3. Consider revisions to contract commitment

Mike asked the Board to confirm if they would be interested in amending the contract to accommodate Gary's request. Mike asked Ken if this amendment was for just this coming year or as a permanent change. Ken responded that he believed it was for a permanent change. Steve Postil asked Mary if the number of attendees was decreasing caused this request. Mary responded that fewer and fewer people attend the meetings. In fact, she has held some meetings where there have been no attendees. Joel Peterson inquired if there was a record of attendees so that a determination of who was attending could be made. He suggested that a modification could be made regarding the targeted audience. Mike suggested that a postcard survey could be mailed to determine who has attended and who would be interested in attending a seminar regarding their financial future. Doris suggested the postcard be sent to all employees so that all eligible participants would be reached, including those that are not currently participating.

Dennis Woodrich commented that he supported reducing the number of group meetings. Steve Postil said that the trend has been apparent in the past few quarters that participation has waned. It would make more sense to increase the number of one-on-one meetings where more people would benefit. Dennis Woodrich **moved, seconded** by Joel Peterson, to accept the amendments as presented in Gary Helm's letter to become effective for the current plan year and for the life of the contract. **Motion passed unanimously.**

E) Target Date Funds Discussion

Mike discussed the term "glidepath" for the Board's understanding. He explained that the term "glidepath" is used in referring to the asset mix between equity and fixed income allocations found in target date retirement funds. As the target date is approached, the equity in the portfolio is reduced and the amount of fixed income is increased to reduce risk and volatility. The retirement fund industry has recently reported a lack of standard and comparability between target date funds, because a 2020 fund might have a 15% equity allocation from one provider and another might have a 55% equity allocation, making some funds more conservative than others, but is generally not good to have such a wide disparity. More discussion on this subject may occur in the next quarterly meeting. Steve Postil asked if a good percentage of participants are in the milestone funds. Mike responded that there are about 400 participants in the milestone funds.

F) Plan Document Implementation

1. Memorandum of Plan Document Amendments for 401 & 457 Plans

Mike recapped the highlights of the items that were included in the Board packet. Over the past 3 years, Congress has passed a number of laws affecting 457 and 401(a) plans including the Pension Protection Act of 2006, the Economic Stabilization Act of 2008, the Worker, Retiree and Employer Recovery Act of

2008, the Katrina Emergency Tax Relief Act of 2005 and the Gulf Opportunity Zone Act of 2005. All of these laws enacted need to be incorporated into the City's plan documents to remain compliant, which ICMA has done in the plan documents being considered by the Board at today's meeting. ICMA-RC and the City of Tucson's Legal Department agree that all the recommended plan amendments are incorporated in the 457 and 401(a) plan documents.

2. 457 Plan Optional implementation considerations

Three issues have already been approved by the Board in August 2007, but they are also contained in the plan documents so that all of the issues are contained in one document. These include tax-free distribution for the payment of qualifying insurance premiums for eligible retired public safety officers (yes), non-spouse beneficiary rollovers to Inherited IRAs and emergency withdrawals for certain events relating to a participant's primary beneficiary (yes). Dennis Woodrich **moved, seconded** by Steve Postil, to approve the Optional Provisions as outlined above with "yes" for Option a, allowing public safety officers to use tax-free distributions for the payment of qualifying insurance premiums, allowing non-spouse beneficiary rollovers for Option b and "yes" for Option c, allowing emergency withdrawals for certain events relating to a participant's primary beneficiary. **Motion passed unanimously.**

3. 401(a) Plan Optional implementation considerations

Chairman Barkenbush commented that certain areas within this document reference a normal retirement age. He remarked that the City of Tucson doesn't really have a "normal" retirement age defined, and because Public Safety retirement is available from this employer, all that's required are twenty years of service to qualify for retirement, so the normal retirement age would be different, depending on the type of participant. Mike agreed that government plans determine eligibility for retirement by combining a person's age with their years of service to come up with a required number. The normal retirement age issue has been a topic that has been discussed by the IRS and the Treasury since May 2007, and these agencies are still discussing how NRA will be applied to governmental plans.

The Optional Provision Elections for the 401(a) plan are similar to those found in the 457 with the exception of allowing in-service distributions at Normal Retirement Age which staff is recommending against. Ken commented that of the 16 large employers in their Plans in the Southwest, none of them allow in-service distributions. Mike recommending allowing the tax-free distributions for the payment of qualifying insurance premiums for eligible retired public safety officers. Dennis Woodrich **moved, seconded** by Joel Peterson, to approve the Optional Provision Elections as recommended by staff with a "yes" for Optional Provision a, allowing non-spouse beneficiary rollovers to Inherited IRAs in Optional Provision b and a "no" for Optional Provision c, not allowing in-service distributions at Normal Retirement Age. **Motion passed unanimously.**

4. 401(a) Plan Mandatory implementation considerations

Mike commented that the primary administration activity for the City's 401(a) plan has been associated with investment plan performance review by the Deferred Compensation Board of Trustees, because everything else has been controlled by the adoption agreement. At the time the originating ordinance was written for the 401(a) plan, the administration was placed under the Tucson Supplemental Retirement System (TSRS) Board of Trustees. And, since all of the investments for the 401(a) are the same as the 457 plan, the investment reviews completed during the quarterly plan reviews from the plan summaries done by ICMA, it became a natural combination for the DC board to consider administration issues. When the TSRS plan document was rewritten effective July 1, 2009, authority for administering the 401(a) Plan under TSRS was removed from the TSRS Board, since it was already being done by the Deferred Compensation Board of Trustees.

5. Discussion of New IRS requirement for 401 Plan

Mike reported that new regulations will require new enrollments in the 401(a) Plan to have a minimum bi-weekly deferral component. In addition, the 60 day enrollment window will be required to change from was an annual event to a final enrollment window for current employees. In the future, only new employees will

be allowed to enroll, and only if they elect to enroll within 60 days of their hire date. Enrollment in the plan allows a participant to defer an additional \$49000 (this year), in addition to the 457 limits. The 401 Plan was originally designed to offer employees an additional deferred savings program for employees that were fully utilizing their annual 457 limits.

Mike commented that the 2009 enrollment period will require a City wide communication effort to indicate that this will be the last opportunity to enroll in the 401(a) plan because of the IRS requirement. If an employee enrolls in the 401(a) Plan, they will be required to elect a bi-weekly deferral of a minimum of 1%. It must also be explained that if this opportunity to enroll in the 401(a) plan is missed during the 2009 enrollment period, the employee will not be allowed to ever participate in the 401(a) plan. Mike remarked that when the 401(a) plan was initially rolled out, participants were encouraged to elect a bi-weekly deduction as well as electing a percentage for their termination pay. Doris commented that participants are asked to determine several years prior to retirement to elect a percentage of their sick leave/vacation leave payouts to go into this fund and that is difficult to determine. Steve Postil **moved, seconded** by Dennis Woodrich, to approve the final annual election period for existing employees from November 1, 2009 through December 30, 2009. The final annual election window shall apply to Plan Participation, Final Pay Contributions and Accrued Leave Contributions. **Motion passed unanimously.**

G) It Pays to Save Campaign Update

Mike reported that when the flyers were ready to be distributed to all City of Tucson departments, 150 posters are requested from ICMA for this. He suggested that when they are ready to be distributed, they should be sent to Claire for distribution. Ken remarked that there are four themes and three posters for each theme that will be sent throughout the coming year.

H) National Save for Retirement Week Events

Mike reviewed the plans currently underway for the National Save for Retirement Week Events. He reported that a baseball theme would be used and three locations (T O Price Center, Parks & Rec and Community Service) would be used rather than the one used in previous years. The least expensive food available will be from Eegee's, and the cost will be sponsored by ICMA. There will be a Mayor and Council proclamation and raffle prize awards for attendees reaching "home plate", utilizing a baseball theme.

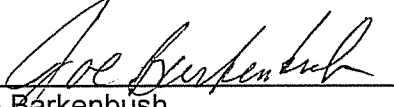
I) Call to Audience

Mike introduced the newest member of the Retirement office staff, Michael Jesse, to the Board.


J) Adjournment

Steve Postil **moved, seconded** by Joel Peterson, to adjourn the meeting. **Motion passed unanimously.**

Approved:


Joe Barkenbush
Chairman of the Board

12-4-09
Date


Michael Hermanson,
Retirement Administrator

12-4-09
Date